THE POSSIBILITIES OF PRICE FIXING IN TIME OF PEACE

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I

Parallel with the path of progress from autocracy to democracy lies another path which leads from authority to liberty, from coercion to persuasion, from getting things done by appealing to fear to getting them done by appealing to hope, from a condition under which every one does what he is commanded to do by some one in authority to a condition under which he does what he is persuaded voluntarily to do by some free citizen with no more authority than himself.

A state of war puts us back several stages in both paths of progress. Democracy must temporarily give way to something closely resembling autocracy. Macaulay said long ago that an army might succeed under a rather poor general, but that no army ever succeeded under a debating society. In the civil government as well as in the army, discussion and legislation are suspended or become more or less perfunctory, while administration becomes more active and more peremptory. Similarly, and for the same reasons, we are set back in the other path of progress. Voluntary agreement largely gives way to authoritative control; men do less what they agree to do and more what they are told to do; they have less room to consider what line of action will bring them the largest rewards and are compelled to consider more and more what lines of action will keep them free from the danger of punishment; they make their enconomic adjustments less and less on the basis of voluntary agreement with other free citizens; they find these adjustments made for them more and more by some one who is in a position of authority over them and who has power to inflict punishment upon them if they do not submit.

These two paths lie so closely parallel as sometimes to deceive us into thinking that they are one and the same. They are quite different, however, as shown by the fact that it is quite possible to have liberty without democracy, and democracy without liberty. In the Canal Zone under Colonel Goethals, there was a great deal of liberty without any democracy whatever, though some have made the mistake of thinking that because his rule was so mild it was therefore very democratic. In Russia today, there is a great deal of democracy with very little liberty, though some have

thought that, because there is so little liberty, there can not, therefore, be very much democracy. Nothing is more democratic than a lynching bee, where nothing impedes the will of the majority, but there is very little liberty for the individual. Its method is compulsion rather than persuasion; it appeals to fear rather than to hope; it inaugurates a regime of illiberalism rather than of liberalism, and yet it is as democratic as anything can well be.

Even under a permanent government the same distinction holds good. A democracy way be illiberal as well as liberal, and an autocracy may be liberal as well as illiberal, though, as a general rule, one expects to find autocracy and illiberalism linked together and democracy and liberalism progressing side by side.

A general policy of price fixing, however democratic the government that adopts it, is an illiberal rather than a liberal policy. It involves an extension of the field of authority and compulsion, and a restriction of the field of persuasion and voluntary agreement.

For centuries before 1776, mediaeval governments were trying to fix prices. Much of the economic discussion among the precursors of Adam Smith was concerned with the question of *justum pretium* or just price. What is a just price and how can it be determined? was a great economic problem of those times when governments were directing everybody in all the affairs of life.

The great liberal movement of the latter part of the eighteenth century and the early nineteenth century swept all these errors away, and aroused trust in the people so that they began to arrange these matters for themselves in the free atmosphere of the open market. This liberating of enterprise and industry from the hampering influence of groups of office holders, anxious to enlarge their authority, was followed by the greatest burst of prosperity that the world has ever known. If we adopt a general, undiscriminating policy of price fixing as a part of a permanent peace program, we shall be going backward rather than forward; we shall be returning to a regime of authority and compulsion rather than going forward toward a regime of voluntary agreement among free citizens.

II

Lest the foregoing be interpreted as a general, undiscriminating advocacy of a *laissez-faire* policy, I hasten to disclaim any such intention. Competition is only one among a number of methods of holding the individual to some kind of standard of perform-

ance, but among all those methods it is, in a certain class of cases, the most satisfactory and efficient. No individual is good enough, wise enough, industrious enough, or public-spirited enough, to be left entirely to himself to decide how much service or how good service he shall render, and how much service or how high a price he shall exact in return. The man who imagines that he is responsible only to God is pretty certain to be the servant of the devil. How to enforce responsibility to his fellow men is the largest question in the whole field of social control. The question of price fixing by government authority as against price determination by voluntary adjustment on the open market, needs to be discussed, not as though it stood alone, but as a part of the larger problem of enforcing individual responsibility, of exacting a good service from him for others, and for him from others.

The two recognized agencies for holding the individual to a standard of performance in production or service are his competitors and his government. His competitors are all those who offer a product or a service which is an equivalent of, or an effective substitute for, his own. His government, if it is not a mere abstraction, consists of men or women who have been elected or appointed to office. Whether the individual can be held more effectively to a proper standard of performance for a proper reward by his competitors or by the office holders who are elected or appointed over him, is the real question. The answer will depend upon the circumstances of time and place.

If there are real competitors present to hold him in check, that is, if those to whom he offers his product or his service have the alternative of accepting it or another of the same kind offered by some one else, there is a very effective check upon his rapacity. Where there is no competitor handy, that is, where those to whom he makes the offer have no alternative but to accept his terms or do without the product or the service which he offers, there is no very effective check upon his rapacity, and it may be necessary to fall back upon the office holder. Where there are competitors handy, they provide a rather more effective check, and at a lower cost, than office holders could provide.

The mere matter of cost, while not the most important consideration, is one of sufficient importance to be a decisive factor in some cases. Instead of maintaining a gang of office holders to hold the individual in check, to enforce a high standard of service on his part, and to limit the price which he can charge, it would sometimes be better to set those office holders to work competing

with him. This would compel him to give good service at moderate cost, and would, besides, add to the total amount of service rendered. In case, however, there is no possibility of setting them or any others to work competing with the rapacious individual, this remedy is not available, and it may be better to elect or appoint them to some office where they can regulate him.

Even in the case of a monopoly, if it supplies a luxury rather than a necessary, the case of the consumer is not so very desperate. It is true that his only alternative is to take the luxury at the price offered or to leave it, still his is not a very severe alternative. He ought not to buy the luxury anyway. If the rapacious monopolist, rather than the moral leader, is the means of getting the consumer to do what he ought to do, that is, to refrain from consuming that which he ought not to consume, I do not know that we need to support a lot of government officials to suppress the monopolist in order to enable the consumer to consume at a low price that which he ought not to consume at all. We may agree that the monopolist ought not to get a high price for something which the consumer ought not to buy, but price fixing does not seem to be the obvious or the natural remedy. Something at least could be said for the prohibition of the luxury as against fixing its price.

Luxuries, however, shade off into necessaries. In the case of an article which is of the nature of a necessary, but one whose absence would make very little difference to us, a very delicate question in the balance of nature is presented. If the price is too high, we can refuse to purchase it, with some inconvenience but with no great hardship, either because there are many good substitutes, or because we do not care much for it anyway. In such a case, the price which even a monopoly could charge would not be very much above a just price. Let us grant that there would be an element of monopoly profit in the price, and that monopoly profit in any form is unjust and odious. Nevertheless, we would have to consider as rational beings whether it would cost more to pay the extra price than to support a group of office holders to repress the monopoly or fix the prices of its product. A large number or office holders interfering with us and exercising authority over us is also undesirable, not to say odious. It is a question of the choice of two evils.

There are cases, however, where the articles or the services offered for sale are such obvious necessaries that we are almost compelled to buy them. If they are offered for sale by a monopoly,

and our only alternative is to take them at the price offered or to leave them, this alternative does not provide us with a real remedy. Monopoly price in such a case becomes a means of extortion. One of two remedies must be provided: (1) give the buyer a real alternative, that is, give him an opportunity to buy the same or an equivalent article or service of some one else—in other words, introduce competition; or (2) delegate to some office holder the authority to use force, or threaten to use force, to compel the monopolist to sell at a fair price.

The latter is an expensive remedy but it may be the only one. It is expensive because the office holder and his staff are withdrawn from some form of production. The total production of the nation is reduced by the amount which would have been produced if the office holders had remained at work. Again, the fact that office holders have the power to fix prices and rates introduces a new question into politics. This sets a certain number of men to talking politics who would otherwise have been doing other kinds of useful work. More of the national energy is withdrawn from production and used up in political campaigns than would otherwise have been necessary. So much might conceivably be thus used up, and the national production so much reduced, as to leave the people less able to pay the reduced price than they would have been to pay the higher price. This, however, is a chance which we must take, or a cost which we must bear. It is merely another illustration of the well-known rule that everything we get has to be paid for. We must always compare the value of a service, even when performed by an office holder, with the cost of having it performed.

III

The ideally just price is one which will secure a balance between production and consumption. It should be high enough to induce producers to produce as much as consumers are willing to buy at that price. Stated otherwise, it should be low enough to induce consumers to buy as much as producers are willing to produce at that price. To fix a price higher than this is to induce producers to produce more than consumers are willing to buy, leaving unsold and unused a part of the produce of industry. To fix a price lower than the equilibrium price is to induce consumers to try to buy more than is produced, leaving some of them with none at all, or offering a price for something which they can not get at any price. An equilibrium price is the price which a price-fixing board would be compelled to seek. To fix any other price would

either leave some producers with a product on their hands which they could not sell, or prevent some consumers from getting something for which they were perfectly willing and able to pay. To prevent the first result, the board would have to be prepared to buy the surplus product of the producers. To prevent the second, it would have to be prepared to ration the consumers.

This equilibrium price which balances marginal utilities and marginal costs is the ideally just price because it is the price which secures for the whole community, made up alike of producers and consumers, the maximum surplus of utility over the disutility or cost. Any other price would perceptibly reduce this surplus, as could be easily illustrated by the use of the well-known utility and cost curves if such illustration were needed. This equilibrium price is precisely the price which competition on a free and open market tends to establish. If the price is so high that consumers will not buy the whole product, those producers who are in danger of having their products left on their hands will cut the price. If it is so low that consumers will try to buy more than there is to be had, some of them are certain to bid higher. An equilibrium price is not only the theoretically just price; it is the price which tends to establish itself on the free and open market.

A price-fixing board must either fix the same price as would be established by the forces of the market, in which case its work would be superfluous, or it must fix a different price. If it fixes a different price it will be wrong unless it can show that the market is not free and open and that therefore the equilibrium price could not be established without its intervention. To the objection that markets are seldom perfectly adjusted, the reply may be made that price-fixing boards are seldom omniscient, and those that are omniscient are seldom perfectly free from bias, prejudice, or selfishness. Unless it can be shown that the competitive processes are interfered with so as to prevent individuals from producing a given commodity and seeking the price which is offered for it, we must assume that the price will tend toward the just level. That is, if it is temporarily too high, or higher than necessary to induce a sufficient production, it will attract other producers, increase the supply and force the price downward. If it is not high enough, it will discourage production, reduce the supply, and force the price upward. No price-fixing board, even if endowed with omniscience, could possibly improve upon this as a method of price fixing. There is danger that it may think that it can, in which case it is absolutely certain to make a nuisance of itself.